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From: Irenep [irenep@selfreliance.com]
Sent: Wednesday, March 18, 2009 11:20 AM
To: _Regulatory Comments
Subject: Bohdan Watral, Comments on Advance Notice of Proposed Rulemaking for Part 704

Comments on Advanced Notice of Proposed Rulemaking for Part 704

In the 1970's the corporate credit union system was created to help natural persons credit unions succeed. They were to provide an alternative to commercial banks and act as an intermediary to the Federal Reserve. They were to offer transaction accounts, item processing, liquidity, and investment options. They were not created to increase the risk or exposure to natural person credit unions.

The economic and operating environment for credit unions has changed from the one that existed when the corporate credit union system was created. Natural persons credit unions grew in their sophistication and the demands they placed on the corporate credit unions. To maintain their relevance corporate credit unions evolved. A few maintained their primary mission while the others focused on overall growth either through fierce competition or mergers. Corporate credit unions chose to assume a higher level of risk in their balance sheet. U.S. Central, as a wholesaler of services to the corporate credit unions, chose and assumed an even greater level of risk to continue to operate.

Over time a few corporate credit unions duplicated the risk profile of U.S. Central and in fact no longer needed U.S. Central as a wholesaler. For some corporates risk and growth became paramount. The balance sheet of the corporate credit unions resulted into a substantial risk exposure to natural person credit unions.

Because of the decision of the corporate credit unions natural person credit unions are funding the NCUA share insurance.

There needs to be a substantial change to the corporate credit union system. Any change should focus on helping natural persons credit unions succeed without excessive risk. I believe there needs to be a substantial consolidation in the number of corporate credit unions. Today there is no longer a need for a wholesaler like U.S. Central; there is no need for a two tiered system. A consolidation to three but no more than six corporate credit unions will be more than adequate to serve the needs of natural person credit unions. This would result in economies of scale that would dramatically reduce their operating expenses and help them earn their way out of the precarious position they have placed themselves in.

There needs to be increased regulation so that the corporate credit unions are operated safely. As to core capital it should include retained earnings and paid in capital. Retained earnings should represent a minimum of 30% of core capital. Paid in capital should provide a much higher return to the natural person credit unions than their other investments due to its higher risk. Core capital should be measured as a percentage of assets net of any fully guaranteed short term investments less than three years in stated maturity. Corporate credit union should be required to maintain a capital ratio of a minimum 7% to apply for expanded investment authority. Expanded investment authority should also be limited by not allowing exposure to subprime and Alt A synthetic securities. These regulations should also include oversight by the NCUA of the salary and bonus structure of the corporate credit unions senior staff so that they will not be key drivers for decision making and risk taking. NCUA should also emphasize that the board of directors of a corporate credit union have a fiduciary responsibility for the safety and soundness of the institution on which they serve and that they could be personally held accountable for the decisions being made. The Board of Directors of any credit union should take their responsibilities seriously.

The consolidation of the corporate credit unions coupled with increased regulation will serve our credit union system well in today's trying economic times.

Bohdan Watral
President/CEO
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